Management Consulting Group PLC

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This announcement contains inside information

Management Consulting Group PLC
Preliminary Results

Management Consulting Group PLC ("MCG" or the "Group"), the global professional services group, today announces its preliminary results for the year ended 31 December 2017. These results reflect continuing operations of the Group, comprising Proudfoot, and discontinued operations relating to the Kurt Salmon business.

Key points

- Investment in and progress made at Proudfoot implementing our new offering and strategy in Europe, Asia and key sectors such as natural resources. Slower pace of change across some areas of the business, notably in the Americas. Operating costs reduced by around 20% during the year.
- Reported revenues of £35.1m (2016: £45.2m). Underlying* operating loss of £8.3m (2016 loss: £8.8m) including foreign exchange losses of £1.4m.
- After non-underlying items, including impairments against goodwill, retained net loss of £31.0m for FY2017 (2016 retained net loss: £0.1m).
- Cash balances at 31 December 2017 were £21.0m (30 June 2017: £28.4m) including £8.6m of cash reserved for contingent creditors of the Group.
- As previously announced, MCG is exploring a fundraising backed by a letter of intent from its major shareholder, Blue Gem Capital Partners LLP ("BlueGem"), to offset risks to its short-term funding position.

*Being operating loss before goodwill impairment and other non-underlying costs and credits. See note 5

Nick Stagg, Chairman and Chief Executive, commented:

"Proudfoot continues to deliver value to clients and remains a distinctive and recognised brand and is an established global operator in key sectors. It needs additional change and investment in order to further the transformation we started in 2017 and start to create value for shareholders. Due to the uncertainty regarding the timing of potential claims under the various disposals carried out in 2015/6 and the longer time frame to execute the turn round in Proudfoot, we will look to raise additional finance to ensure that we can complete the changes in Proudfoot and deliver value to shareholders."

For further information please contact:

Management Consulting Group PLC

Nick Stagg	Chairman and Chief Executive	020 7710 5000

Notes to Editors

Management Consulting Group PLC (MMC.L) provides professional services across a wide range of industries and sectors. For further information, visit www.mcgplc.com.

Market Abuse Regulation

The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation. Upon the publication of this announcement via a regulatory information service, this inside information is now considered to be in the public domain.

The person responsible for arranging for the release of this announcement on behalf of the Group is Nick Stagg, Chairman and Chief Executive.

Forward-looking statements

Certain information contained in this announcement constitutes forward looking information. This information relates to future events or occurrences or the Company's future performance. All information other than information of historical fact is forward looking information. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict" and "potential" and similar expressions are intended to identify forward looking information. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information. No assurance can be given that this information will prove to be correct and such forward looking information included in this announcement should not be relied upon. Forward-looking information speaks only as of the date of this announcement.

The forward looking information included in this announcement is expressly qualified by this cautionary statement and is made as of the date of this announcement. The Group does not undertake any obligation to publicly update or revise any forward looking information except as required by applicable securities laws.

Chairman and Chief Executive's statement

After the transformational transactions of 2016, we focused in 2017 on the recovery of Proudfoot, the Group's only continuing business. Our strategic focus has been in 2017 and remains in 2018 on the transformation of the Proudfoot business.

The year started with a creative rebrand of Proudfoot which, whilst rooted in our 75 years of client success, was designed to showcase our ability to work with senior executives and their frontline teams to transform their business and deliver lasting change. Proudfoot continues to focus on operations transformation as its core offering adding new offerings such as Proudfoot Digital Ready and mixing a global presence across a wide range of industries with particular focus on sectors such as natural resources. Throughout the year, the Proudfoot teams continued to demonstrate tangible success to our clients in a wide variety of projects and assignments, delivering significant and sustainable financial benefits. We have made large scale changes to the nature of the solutions we now deliver, whilst being true to our purpose for clients; achieving "tomorrow's results, today". Clients and peers recognised our impact, with an award for our work in natural resources for Rio Tinto in the Best International Project category at the 2018 MCA Awards and our work for Santa Monica Seafood winning us their Service Provider of the Year award. Proudfoot was put on Forbes annual list of Best Consulting Firms in America We invested in new hires, to retain our key talent and in our intellectual property. In the markets where change has been rolled out earliest – Europe and Asia notably – we saw growth.

Group revenues were £35.1m in 2017, 22% lower than in 2016 (£45.2m). Whilst we were able to grow in Europe and Asia, our activity in North America, where the new model was starting its roll-out, was low. The second half of the year was particularly weak with revenues of £13.5m compared to £19.5m in the second half of 2016. Whilst maintaining selective investment, the Group has continued to reduce its cost base successfully: underlying operating costs were £43.4m in 2017 compared to £54m in 2016, a reduction of nearly 20%. However, the Group still reported an underlying operating loss of £8.3m for the year as a whole. Excluding foreign exchange losses, the underlying operating loss would have been £7.1m, showing good progress compared to 2016. The reported loss for the period was £31.0m (2016: loss £0.1m).

Reflecting the operating losses as well as restructuring costs, the Group's cash and cash equivalents fell to £21.0m as at 31 December 2017 (from £38.1m as at 31 December 2016). Of this £21.0m, €8.0m (approximately £7m) was held in escrow accounts connected with the sale of parts of the Kurt Salmon business. We continued to manage the residual activities and liabilities linked to our discontinued businesses and overall the impact of discontinued activities on our 2017 financial statements is substantially less than in 2016, in line with our expectations. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims, nonetheless, there remains risk and uncertainty linked to the discontinued activities, notably in respect of warranty claims and therefore the timing and release of the escrow funds.

As we look ahead to 2018, we remain confident in the potential of the Proudfoot model to deliver sustainable improvement and change for our customers and we will seek to maintain the momentum of the transformation we have started, even if the pace of change has been slower than expected. We also expect to continue to work to reduce our cost base further across the Group as a whole. In this context we are finalising the sale to management of our business in Brazil.

The Board highlights the risks to the Group's short-term funding position created by contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016 in the 2017 report to shareholders and this is also commented on by our external auditors in their 2017 Audit report. As previously announced and having received a letter of intent from its major shareholder, Blue Gem, the Board is now working to finalise its plans for a fundraising which would offset these risks on an expedited basis.

Nick Stagg

Financial and operating review

After the transformational transactions of 2016, we focused in 2017 on the recovery of Proudfoot whose operations and service offering were substantially reorganised during the year.

The continuing operations of the Group comprise Proudfoot and the commentary below on the 2017 results and the 2016 comparatives chiefly relate to that business. Discontinued activities are largely related to the residual transitional service agreements and other contractual obligations and contingent liabilities related to the business disposals undertaken by the Group.

Proudfoot's reported revenue for 2017 was 22% lower at £35.1m (2016: £45.2m). Although first half 2017 revenues of £21.6m showed growth compared to the second half of 2016, this was not sustained in the second half of 2017. Second half revenues were £13.5m and the latter part of the year was particularly weak, notably in North America. Given the lower revenues, and despite substantial cost reduction measures, the Group reported an underlying operating loss of £8.3m (2016: loss of £8.8m) for the year as a whole, as defined in key points. Excluding foreign exchange losses, the underlying operating loss would have been £6.9m, showing good progress compared to 2016. The reported operating loss was £31.0m (2016: loss £0.1m)

Review of continuing operations

2017 was a year of large-scale change and selective investment at Proudfoot. We invested to maintain our key talent and in new hires as well as in our know-how and intellectual property. We undertook a creative rebrand of Proudfoot which, whilst rooted in our 75 years of client success, was designed to showcase our ability to work with senior executives and their frontline teams to transform their business and deliver lasting change. We have made changes to the nature of the solutions we now deliver, whilst being true to our purpose for clients; achieving "tomorrow's results, today".

Throughout the year, the Proudfoot teams continued to demonstrate tangible benefits to our clients in a wide variety of projects and assignments, delivering significant and sustainable financial benefits. In the markets where change has been rolled out earliest – Europe and Asia notably – we saw growth in our revenues. Our main challenge looking forward is to deliver a similar impact in North America where the new model was starting to be rolled out during the year.

At the start of 2017, we recognised the need to focus on continued change in Proudfoot, and the business fundamentally changed its structure and sales model and introduced new additional services during the course of the year. To our core capabilities of Proudfoot Analytics and Proudfoot People Solutions, we have added new offerings such as Proudfoot Digital Ready which enables management to lead digital change through their people processes and decision-making. This has driven our recent success with European and Asian clients where the model was rolled out first. We have also continued to merge our selling activities with our delivery capabilities, driving greater customer satisfaction with the added benefit of streamlining our cost base. Structurally, we have removed several layers of management across the business, therefore focusing on bringing our most senior expertise directly into our client teams.

Proudfoot appointed a new Chief Executive, Pam Hackett, who has a 30-year history with the business and led the Asian and European businesses previously. Organized globally, Proudfoot has two sector verticals (Natural Resources and Industrials). Our capability verticals (Digital Ready and MRO) cross multiple sectors. These four verticals are complimented by local market specific sector and capability strengths. Proudfoot's principal hubs are in the Americas, EMEA and Asia. Proudfoot practices global staffing of engagements matching expertise to client needs. Our natural resources business frequently requires us to operate in remote locations such as Rio Tinto's vast Oyu Tolgoi development in the Gobi Desert, Mongolia. Approximately 98% of 2017 revenues were generated outside the UK. The same proportion of revenues were billed in currencies other than Sterling, with the US Dollar representing approximately 45% of the total.

Work for clients in the natural resources sector continued to represent a significant proportion of Proudfoot's activities, at around 30% of total revenues in 2017 (2016: 42%). Clients in this sector continued to be holding back investments given the uncertain outlook in some commodity markets and this had a significant adverse impact on Proudfoot's revenues in 2017, as in previous years. However, we continued to expand our work with larger global mining groups. We have also been successful in expanding our client base in related sectors such as building materials and with general industrial and manufacturing companies. Clients and peers recognised our impact, with our assignment in natural resources for Rio Tinto receiving an award in the Best International Project category at the 2018 MCA awards and our work for Santa Monica Seafood winning us their Service Provider of the Year award. Proudfoot was put on Forbes annual list of Best Consulting Firms in America.

Our business remains geographically diverse. Revenues from clients based in Europe, Africa and Asia region represented approximately 42% of total revenues in 2017 (2016: 29%) and revenues from clients based in the Americas represented approximately 44% of total revenues in 2017 (2016: 62%).

In Europe, our business was focused principally on clients based in the UK, France and Germany, deriving much of our revenues from projects outside these clients' home countries. Further progress was made during the year in enhancing the sales and delivery functions through selective recruitment and management changes. Revenues from European-based clients in 2017 were 11% ahead of the previous year with significant repeat business.

Although small, our business with clients in Asia based out of our Hong Kong office showed improvement compared to a poor 2016, benefitting from the management and personnel changes made last year.

Revenues from clients in North America was disappointing, falling from £15.3m in 2016 to £12.2m in 2017. This performance reflected that the introduction of Proudfoot's new business offerings and models and the substantial associated changes in front-line staff were only getting started during this period. Management remains committed to the key US market and is continuing to implement a series of initiatives to promote an improved performance in a market which remains broadly favourable.

Although Proudfoot continues to have a strong reputation and presence in South America, the Group expects to change its delivery model for these markets further in 2018.

Our activity with clients in Africa suffered from the relatively low level of investment amongst natural resources clients, which has been the mainstay of our local office in South Africa.

Looking forward

Management is now focusing on further enhancing the front-end capabilities of the business and building long term client relationships, building on those parts of the offering which are distinctive and drive value for clients. Action continues to be taken to mitigate the profit impact of lower revenues by reducing headcount and discretionary expenditure, although a significant element of the operating costs of the Proudfoot business relate to the sales function and the infrastructure of the business across a range of geographies and these are less easily flexed downwards without reducing the potential for revenue recovery and growth in the future.

The Board is conscious that the turnaround of the business is taking longer than expected but intends to continue to promote the changes needed to restore the Group's growth and profitability.

Loss for the period from continuing operations

The Group has reported a net non-underlying charge of £0.8m (2016 £0.5m). This comprises a charge of £1.1m relating to restructuring of the Proudfoot business, a £0.4m provision for future pension payments and a credit of £0.7m relating to the partial release of a provision in respect of the closure of the Proudfoot post-retirement medical benefit scheme.

Operating loss from continuing operations reflects the impact of foreign exchange movements on cash and cash equivalents balances held in currencies other than sterling. These impacts increased the operating loss by £1.4m in 2017.

The operating loss from continuing operations also reflects a charge of £16.7m for the impairment of goodwill relating to Proudfoot. Goodwill is tested annually for impairment, based on determining recoverable amounts from value-in-use calculations. The Board reviewed the carrying value of Proudfoot goodwill at 31 December 2017 and concluded that the recoverable amount was lower than the value of goodwill then recorded at cost in the Group balance sheet. Consequently, the Group has reported an impairment charge and Proudfoot goodwill is reflected in the Group balance sheet at zero. Notwithstanding the value-in-use assessment in relation to the Proudfoot goodwill, the Board's expectation and belief is that the recent weak trading performance of the business will not persist in the medium term and the business will achieve profitability but at a slower pace than previously expected and recognises the uncertainty of the current trading conditions.

After the above non-recurring expenses and intangible asset impairments, there was an operating loss from continuing operations of £25.8m (2016: loss of £39.6m).

The net interest expense from continuing operations was lower at £0.5m (2016: £1.2m). In accordance with IAS 19 the reported net interest charge for 2017 includes an imputed charge in relation to defined benefit pensions of £0.6m (2016 £0.8m).

The loss before tax on continuing operations was £26.3m (2016 loss of £40.8m). The tax charge on continuing operations was £4.5m (2016: £2.2m credit). The movement in the deferred tax asset from £8.1m to £0.1m is reflected primarily by a balance sheet reclassification of £0.6m and an impairment of the deferred tax assets in the US of £7.2m, split between the P&L (£3.3m) and reserves £3.9m). The charge in the income statement represents the impairment of US tax losses and other temporary differences and the charge through reserves represents the impairment of the temporary difference on the US pension scheme. The continuing high tax charge on continuing operations in 2017 reflects the impact of unrelieved losses in certain jurisdictions driven largely by loss-making operations and the impact of project specific withholding taxes in Proudfoot.

Discontinued operations

Discontinued operations comprise residual transitional service agreements and obligations including contingent liabilities of the businesses that were sold in 2016. The disposals during 2016 comprised:

- The sale of the French and related operations of Kurt Salmon (namely the businesses in Belgium, Luxembourg, Switzerland and Morocco together with two New York-based practices in the United States) to Wavestone which completed on 7 January 2016 for net proceeds of £58.6m. The Group agreed as part of this disposal to place €8 million in escrow to cover certain agreed continent liabilities;

• The sale of the US healthcare consulting business of Kurt Salmon to ECG Management Consultants, which completed on 29 July 2016 for net proceeds of £6.2m;

• The sale of the global retail and consumer goods consulting operations of Kurt Salmon to Accenture, which completed on 1 November 2016 for net proceeds of £125.1m.

Certain existing back-office operations of Kurt Salmon in the United States did not form part of the disposals. As a result, certain office leases, supplier and other contracts and back office personnel supporting Kurt Salmon were retained by MCG following completion and were used to support transitional service agreements with the acquirers of the Kurt Salmon businesses. The results of these transitional services activities are included in reported discontinued operations in 2017 and 2016 including a provision for the estimated net cost of providing these services up to the expected termination dates, on the basis that these obligations relate to onerous contracts.

The total loss from discontinued operations for 2017 was £0.3m (2016: profit of £38.5m).

Loss for the period

Taking into account the loss from discontinued operations, the reported loss for the Group for the year attributable to shareholders was £31.0m (2016: £0.1m loss).

The underlying loss per share attributable to continuing operations was 2.6p (2016: loss of 1.6p) and the basic loss per share attributable to continuing operations was 6.1p (2016: loss of 7.6p).

Balance sheet

Intangible Assets

Intangible assets of £0.2m (2016: £17.7m) relate solely to computer software assets following the impairment of goodwill.

Deferred tax assets

The balance sheet includes £0.1m of deferred tax assets (2016: £8.3m). In 2017 and 2016, these principally relate to the US operations. The year on year decrease represents a reduction in the value of losses carry-forward given the reduction in the US tax rate and a further write down of US tax losses to reflect the low probability of using the remaining losses against taxable income in the US.

Net cash

At 31 December 2017, the Group reported cash and cash equivalents in the Group balance sheet of £21.0m (2016: £38.1m).

Reported cash balances at 31 December 2017 include approximately £8.6m of cash which is required to be retained to support certain contingent creditors of the Group, in particular €8m was held in escrow in relation to the indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon. Although a substantial proportion of this cash is expected to become available to the Group for general corporate purposes as the contingent obligations fall away over time, the exact amount and timing is subject to uncertainty. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims.

Pensions

The retirement benefits obligation reflected in the Group balance sheet at 31 December 2017 relates to the net liability under a part-funded US defined benefit pension scheme of £7.2m, an unfunded French retirement obligation of £0.3m, and a legacy Kurt Salmon UK defined pension scheme which shows a closing asset position of £0.2m. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes decreased from £11.6m at 31 December 2016 to £7.3m at 31 December 2017, principally as a result of the actuarial gains experienced in the US scheme but also as a result of members leaving the UK scheme. During 2017 the fund was managed on a basis to reduce as far as possible the deficit between liabilities and assets whilst maintaining an appropriate risk profile. This was achieved by having 60% of the fund in equities and 40% in bonds. This has been moved to a more conservative 60% in bonds and 40% in equities at the start of 2018.

Provisions

Provisions principally relate to the cost of leases for surplus property, other onerous contracts, restructuring costs and other liabilities linked to the 2016 disposals and have decreased from £7.7m at 31 December 2016 to £4.7m at 31 December 2017. The reduction in provision principally relates to the utilisation of the provisions set up to cover the transitional service agreements and onerous leases in Atlanta and San Francisco.

Net assets

The net assets of the Group have decreased from £32.6m at 31 December 2016 to £2.1m at 31 December 2017, primarily due to retained loss for the year from the business.

Dividends

The Board does not intend to declare a dividend for 2017.

Going concern

The Group’s risk factors likely to affect its future development, performance and position, are set out in the principal risks and uncertainties section in this announcement. The financial position of the Group is described in this financial and operating review. In addition, note 2 of the consolidated financial statements include the Group’s objectives, policies and processes for managing its capital and its exposures to risk. The Group prepares regular business forecasts which are reviewed by the Board. Forecasts are adjusted for sensitivities, which address the principal risks to which the Group is exposed, and consideration is given to actions open to management to mitigate the impact of these sensitivities. The Board used assumptions for 2018 in line with previous guidance. In particular, the Board noted that Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. Nonetheless, the Board concluded that revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in 2017. The Board assumed that management would be successful in continuing its work to reduce costs across the Group as a whole. For 2019, the Board assumed that Proudfoot's revenues would rise but not to the levels seen in 2016. In assessing sensitivities, the Board took into account the slower than expected pace of change at Proudfoot and the disappointing revenues in past periods.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and in particular to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

While the Board remains confident as to the Group's overall position in terms of the release of the outstanding Kurt Salmon escrow funds, it considers that uncertainties around the ongoing negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. The Board is now working to finalise its plans for the fundraising on an expedited basis.

The Board has concluded that its forecasts indicate that the Group has adequate resources to be able to operate for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements. However, the Board has also noted the risks and uncertainties related to those forecasts referred to above as well as to the fundraising intention referred to above and has concluded that these material uncertainties cast significant doubt on the Company's ability to continue as a going concern. For further details please refer to note 2 to the consolidated financial statements.

Outlook

Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. The customer reaction to our offering continues to be strong where we win work. We are building up the necessary sales and marketing teams and infrastructure to promote our offering more effectively and the Board remains confident in the power of the Proudfoot model to deliver sustainable improvement and change for our customers. Nonetheless, revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in 2017. In addition, Management is continuing its work to reduce costs across the Group as a whole.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and in particular to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016. As previously announced, the Board considers that the uncertainties around these negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. As previously announced, the Board is now working to finalise its plans for the fundraising on an expedited basis.

Principal risks and uncertainties

Identifying key areas

The directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model future performance, solvency or liquidity.

Risk management process

The risk management process can be summarized as follows

Identify risk, then assess, develop mitigation plans, reassess and report to the Board

1. Demand for services provided by Proudfoot in the markets and sectors in which it operates

Proudfoot operates in several geographies and industry sectors and demand for its services can be affected by global, regional or national macro-economic conditions and conditions within individual industry sectors. Proudfoot operates in a competitive environment, where other consulting firms seek to provide similar services to its clients. Changes in demand for Proudfoot's services can significantly impact revenues and profits.

In response to anticipated changes in demand and competitive pressures, the Group made changes in 2017 to Proudfoot's offering to exploit opportunities for growth in geographies and sectors where demand is increasing. Proudfoot operates a flexible model and can deploy staff to areas of higher demand to optimise utilisation. Part of the total remuneration paid to senior employees is in the form of variable pay related to financial performance, which provides some profit mitigation in the event of a decline in revenues.

Level/increasing

Market conditions in 2017 varied between the key sectors and geographies in which Proudfoot operates, in some cases showing positive trends, in others negative ones. Demand from natural resources clients, a key sector for Proudfoot's services, remained weak in 2017.

2. Development and retention of key client relationships

Proudfoot typically contracts with clients for the delivery of project related consulting services over relatively short periods. Individual clients may change their preferred suppliers or may change the quantity of such services or the price at which they buy such services. Failure by Proudfoot to develop and retain client relationships could result in a significant reduction in the Group's revenues. Potential unforeseen contractual liabilities may arise from client engagements that are not completed satisfactorily.

The changes made to Proudfoot's business processes in 2017 are designed to promote and enhance client relationships, and to generate revenues over longer periods than those of a typical single project. This includes different contracting models as well as a continued focus on the delivery of high quality work that meets clients' expectations. Our human resources management policies emphasise the importance of maintaining and developing client relationships. Potential contractual liabilities arising from client engagements are managed through the control of contractual conditions and insurance arrangements.

Increasing

Proudfoot has retained key client relationships and continued to work to develop new long-term relationships but the latter is taking longer than expected.

3. Recruitment and retention of talented employees

The Group is dependent on the recruitment and retention of key personnel to develop and maintain relationships with clients and to deliver high quality services. Any failure to attract and retain such personnel, or which results in their unforeseen departure from the business, may have detrimental consequences on the Group's financial performance.

The Group has remuneration policies and structures that reward good performance consistent with prevailing market levels of remuneration. For senior employees, a significant element of total remuneration is variable and linked to financial and other performance measures, which provides opportunities for enhanced rewards. The Group is actively looking to hire from as broad a pool of talent as possible.

Increasing

Staff retention has been managed effectively and we have recruited in areas of the business which are being developed but the need to reduce costs presents an additional risk to retention.

4. Optimisation of the Group's intellectual capital

The intellectual capital of the Proudfoot business, including its methodologies and its track record of successful sale and delivery of assignments to clients, is a key asset which must be maintained, continually developed and protected, so that its offerings remain distinctive and attractive to clients. It is possible that employees who exit the business may appropriate this intellectual capital for use by themselves or by the Group's competitors.

The Group maintains a comprehensive knowledge management system to record its methodologies and track record of client assignments. It develops and refreshes these continually in response to, and in anticipation of, market demand. The Group protects its intellectual property through appropriate contractual arrangements with employees and others, and through legal action where necessary.

Level

We have continued to invest to develop new offerings and to build our intellectual capital.

5. Fluctuations in foreign currency exchange rates

The Group reports its results and financial position in Pounds Sterling but operates in and provides services to clients in many countries around the world, conducting most of its business in other currencies. In particular, a significant proportion of the Group's business is conducted in US Dollars. Fluctuations in prevailing exchange rates may have a significant impact on reported revenues and profits.

Where appropriate, the Group will undertake hedging to mitigate currency risk. This is rarely undertaken since the Group's cost base is, in broad terms, located in those countries in which the Group generates revenues. The currencies in which costs and revenues are denominated are therefore, to a great extent, matched and this tends to reduce the impact of exchange rate fluctuations on reported profits.

Level

Currency volatility has had an impact on reported revenues and operating results in 2017.

6. Management of residual liabilities

Description

In 2016, the Group completed three major disposals. As part of these disposals, the Group agreed to provide certain transition service and also retained responsibility for certain contingent liabilities relating to the businesses sold and placed certain of its cash balances in escrow as guarantees. The amount of actual costs and the timing and amount of the release of cash from escrow could vary from our initial assumptions reducing the amount of liquidity available for the Group's continuing operations. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims.

Mitigation

The initial contractual arrangements were structured to limit in amount and time the overall potential liabilities of the Group and management monitors the actual costs and potential liabilities.

Increasing

Whilst transition services agreements have been effectively managed, there remains risk to the effective timing of release from these liabilities (including of cash reserved to cover them) given arising warranty claims from the acquirors.

7. Pension liabilities

Description

The Group has a number of retirement plans covering both current and former employees, including defined benefit plans notably in the US and the UK. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes decreased from £11.6m at 31 December 2016 to £7.2m at 31 December 2017, principally as a result of the actuarial gains experienced in the US scheme but also as a result of members leaving the UK scheme. There is a risk that the amount of the liability changes depending on the changes in the actuarial value of the liability in the schemes.

In addition, there is a risk that trustees of the various plans request the Group to take a different approach to funding deficits which could involve calls on the Group's cash resources.

Mitigation

The Group maintains an active dialog with the trustees of the plans. In addition, the Group has actively been promoting to plan members the possibility to exit plans and part of the reason for the decline in the net obligation in 2017 was members leaving the UK plan.

Level

Group income statement

	Note	**2017 £'000**	2016 £'000
Continuing operations			
Revenue		**35,103**	45,193
Cost of sales		**(18,646)**	(23,711)
Gross profit		**16,457**	21,482
Administrative expenses – underlying		**(24,761)**	(30,327)
Loss from operations – underlying		**(8,304)**	(8,845)
Administrative expenses – non-underlying – impairment	5	**(16,665)**	(30,358)
Administrative expenses – non-underlying other	5	**(1,483)**	(2,304)
Administrative expenses – non-underlying credit	5	**664**	1,894
Total administrative expenses		**(42,245)**	(61,095)
Operating loss		**(25,788)**	(39,613)
Investment revenues	7	**224**	64
Finance costs	7	**(719)**	(1,220)
Loss before tax		**(26,283)**	(40,769)
Tax	8	**(4,485)**	2,209
Loss for the period from continuing operations		**(30,768)**	(38,560)
(Loss)/Profit for the period from discontinued operations	12	**(251)**	38,505
Loss for the period		**(31,019)**	(55)
(Loss)/earning per share – pence			
From loss from continuing operations for the year attributable to owners of the Company			
Basic	9	**(6.1)**	(7.6)
Diluted	9	**(6.1)**	(7.6)
Basic – underlying	9	**(2.6)**	(1.6)
Diluted – underlying	9	**(2.6)**	(1.6)
From the loss for the period:			
Basic	9	**(6.1)**	0.0
Diluted	9	**(6.1)**	0.0
Basic – underlying	9	**(2.6)**	(0.9)
Diluted – underlying	9	**(2.6)**	(0.9)

Group statement of comprehensive income

	2017 £'000	2016 £'000
Loss for the year	**(31,019)**	(55)
Items that will not be subsequently reclassified to profit and loss:		
Actuarial gains/(losses) on defined benefit post-retirement obligations	**3,838**	(574)
Tax on items taken directly to comprehensive income	**(3,867)**	(186)
	(29)	(760)
Items that may be reclassified subsequently to profit and loss:		
Gain on available-for-sale investments	**—**	7
Exchange differences on translation of foreign operations	**643**	(20,667)
	643	(20,660)
Total comprehensive expense for the year attributable to owners of the Company	**(30,405)**	(21,475)

Group statement in changes of equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share compensation on reserve £'000	Shares held by employee benefits trust £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	**84,538**	**82,664**	**5,683**	**4,179**	**(1,855)**	**17,291**	**6,082**	**(69,276)**	**129,306**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(55)**	**(55)**
Other comprehensive expense	**—**	**—**	**—**	**—**	**—**	**(20,667)**	**7**	**(760)**	**(21,420)**
Total comprehensive expense	**—**	**—**	**—**	**—**	**—**	**(20,667)**	**7**	**(815)**	**(21,475)**
Shares issued	**107**	**359**	**—**	**—**	**—**	**—**	**—**	**—**	**466**
Cancellation of deferred shares	**(79,534)**	**—**	**—**	**—**	**—**	**—**	**—**	**79,534**	**—**
Cancellation of share premium	**—**	**(75,000)**	**—**	**—**	**—**	**—**	**—**	**—**	**(75,000)**
Share-based payments	**—**	**—**	**—**	**1,521**	**—**	**—**	**—**	**—**	**1,521**
Lapsed/vested shares	**—**	**—**	**—**	**(5,474)**	**—**	**—**	**—**	**1,521**	**(3,953)**
Shares transferred from employee benefit trust	**—**	**—**	**—**	**—**	**1,747**	**—**	**—**	**—**	**1747**
Recycling of merger reserve investment	**—**	**—**	**(5,683)**	**—**	**—**	**—**	**—**	**(5,683)**	**—**
Recycling of reserve	**—**	**—**	**—**	**—**	**—**	**—**	**975**	**(975)**	**—**
Balance at 31 December 2016	**5,111**	**8,023**	**—**	**226**	**(108)**	**(3,376)**	**7,064**	**15,672**	**32,612**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(31,019)**	**(31,019)**
Other comprehensive income/(expense)	**—**	**—**	**—**	**—**	**—**	**643**	**—**	**(29)**	**614**
Total other comprehensive income	**—**	**—**	**—**	**—**	**—**	**643**	**—**	**(31,048)**	**(30,405)**
Share-based payments	**—**	**—**	**—**	**(63)**	**—**	**—**	**—**	**—**	**(63)**
Lapsed/ vested shares	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**(5)**
Shares transferred from ESOP	**—**	**—**	**—**	**—**	**5**	**—**	**—**	**—**	**5**
Balance at 31 December 2017	**5,111**	**8,023**	**—**	**158**	**(103)**	**(2,733)**	**7,064**	**(15,376)**	**2,144**

Group balance sheet

	2017 £'000	2016 £'000
Non-current assets		
Intangible assets and goodwill	**151**	17,724
Property, plant and equipment	**358**	1,108
Other receivables	**395**	—
Deferred tax assets	**79**	8,324
Total non-current assets	**983**	27,156
Current assets		
Trade and other receivables	**4,075**	7,212
Current tax receivables	**965**	1,404
Cash and cash equivalents	**20,979**	38,067
Total current assets	**26,019**	46,683
Total assets	**27,001**	73,839
Current liabilities		
Trade and other payables	**(11,390)**	(20,162)
Current tax liabilities	**(1,391)**	(1,070)
Total current liabilities	**(12,781)**	(21,232)
Net current assets	**13,238**	25,451
Non-current liabilities		
Retirement benefit obligations	**(7,320)**	(11,577)
Deferred tax liabilities	**(24)**	(707)
Long-term provisions	**(4,732)**	(7,711)
Total non-current liabilities	**(12,076)**	(19,995)
Total liabilities	**(24,857)**	(41,227)
Net assets	**2,144**	32,612

	2017 £'000	2016 £'000
Equity		
Share capital	**5,111**	5,111
Share premium account	**8,023**	8,023
Share compensation reserve	**158**	226
Shares held by employee benefits trust	**(103)**	(108)
Translation reserve	**(2,733)**	(3,376)
Other reserves	**7,064**	7,064
Retained earnings	**(15,376)**	15,672
Equity attributable to owners of the Company	**2,144**	32,612

Group cash flow statement

	Note	**2017** **£'000**	2016 £'000
Net cash outflow from operating activities	11	**(15,014)**	(15,214)
Investing activities			
Interest received		**224**	65
Purchases of property, plant and equipment		**(108)**	(414)
Purchases of intangible assets		**(15)**	(239)
Net proceeds from disposal		**—**	188,950
Net cash generated from investing activities		**101**	188,362
Financing activities			
Dividends paid		**—**	(7)
Proceeds from borrowings		**—**	9,663
Repayment of borrowings		**—**	(78,697)
Return of Capital		**—**	(75,000)
Net cash used in financing activities		**—**	(144,041)
Net (decrease)/increase in cash and cash equivalents		**(14,913)**	29,107
Cash and cash equivalents at beginning of year		**38,067**	20,737
Effect of foreign exchange rate changes		**(2,175)**	(11,777)
Cash and cash equivalents at end of year		**20,979**	38,067

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated balance sheet position as shown above.

Included within the 2017 Group cash balance of £21.0m and Company cash balance of £16.4m is £8.6m (2016: £9.6m) of cash which is not available for use by the Group. This represents cash held in restricted bank accounts which is required to be retained to support indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon and in support of the Kurt Salmon UK pension scheme, which became PLC Company's obligation following the sale of the Kurt Salmon retail and consumer goods operations.

Notes

1. Basis of preparation

The financial information included in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. An unqualified audit report including an emphasis of matter in respect of going concern was issued on the 2017 financial statements,and did not contain statements under section 498 Companies Act 2006. A condensed version thereof is attached to this preliminary announcement.

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

The Group's Annual Report and Accounts and notice of Annual General Meeting will be sent to shareholders and will be available at the Company's registered office at St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP, United Kingdom and on our website: www.mcgplc.com.

2. Accounting policies

The financial information has been prepared in accordance with IFRS. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (as at 31 December 2017). The policies have been consistently applied to all the periods presented.

Full details of the Group's accounting policies can be found in note 2 to the 2016 Annual Report which is available on our website: www.mcgplc.com.

3. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Group prepares regular business forecasts which are reviewed by the Board. Forecasts are adjusted for sensitivities, which address the principal risks to which the Group is exposed, and consideration is given to actions open to management to mitigate the impact of these sensitivities. The Board used assumptions for 2018 in line with previously announced guidance. In particular, the Board noted that Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. Nonetheless, the Board concluded that revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in FY2017. The Board assumed that management would be successful in continuing its work to reduce costs across the Group as a whole. For 2019, the Board assumed that Proudfoot's revenues would rise but not to the levels seen in 2016. In assessing sensitivities, the Board took into account the slower than expected pace of change at Proudfoot and the disappointing result revenues in past periods.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and in particular negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

While the Board remains confident as to the Group's overall position in terms of the release of the outstanding Kurt Salmon escrow funds, it considers that the ongoing negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem Capital Partners LLP, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. The Board is now working to finalise its plans for the fundraising on an expedited basis.

The Board has concluded that its forecasts indicate that the Group has adequate resources to be able to operate for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements. However, the Board has also noted the risks and uncertainties related to those forecasts referred to above as well as to the fundraising intention referred to above and concluded that these material uncertainties cast significant doubt on the Group and Company's ability to continue as a going concern.

The principal uncertainties can therefore be summarised as follows:

- The timing and quantum of the release of cash from escrow in connection with the disposal of Kurt Salmon is uncertain.

- The source and quantum of the current immediate fund-raising plans is the subject of a letter of intent, but that intention is neither binding nor guaranteed. The ability to achieve the forecast revenues and reduce the cost base of the business appropriately is inherently uncertain and therefore the quantum of the Group's financing requirements is uncertain and its sufficiency is dependent on achieving at least the sensitised forecast outturn.

Accordingly, there is a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, the Group and Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

4. Segmental information

The Group's continuing operating segment is one professional services practice, Proudfoot. This is the basis on which information is provided to the Board of Directors for the purposes of allocating certain resources within the Group and assessing the performance of the business. All revenues are derived from the provision of professional services.

(a) Geographical analysis

The Group operates in three geographical areas; the Americas, Europe and the Rest of World. The following is an analysis of financial information by geographic area:

(i) Revenue and underlying operating loss by geography

	Americas	**Europe**	**Rest of World**	**Group**
Year ended 31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**
Revenue - continuing operations	**15,377**	**14,762**	**4,964**	**35,103**
Loss from operations before non-underlying expenses	**(6,224)**	**(1,527)**	**(533)**	**(8,304)**
Non-underlying expenses	**(1,192)**	**(142)**	**(149)**	**(1,483)**
Non-underlying income	**664**	**—**	**—**	**664**
Loss from operations before impairment	**(6,752)**	**(1,669)**	**(702)**	**(9,123)**
Goodwill impairment				**(16,665)**
Loss from operations				**(25,788)**
Investment revenue				**224**
Finance costs				**(719)**
Loss before tax				**(26,283)**

Included in revenues arising from Americas are revenues of approximately £3.6m which arose from sales in 2017 to the Group's largest customer. No other single customer contributed to 10% or more to the Group's revenue in either 2016 or 2017.

	Americas	Europe	Rest of World	Group
Year ended 31 December 2016	£'000	£'000	£'000	£'000
Revenue – continuing operations	27,822	13,190	4,181	45,193
Loss from operations before non-underlying expenses and amortisation of acquired intangibles	(4,418)	(1,867)	(2,560)	(8,845)
Non-underlying expenses and amortisation of acquired intangibles	(2,278)	(953)	(213)	(3,444)
Non-underlying income	1,808	737	489	3,034
Loss from operations before impairment	(4,888)	(2,083)	(2,284)	(9,255)

Goodwill impairment	(30,358)
Loss from operations	(39,613)
Investment revenue	64
Finance costs	(1,220)
Loss before tax	(40,769)

4. Segmental information *(continued)*

(a) Geographical analysis *(continued)*

(ii) Net assets by geography

At 31 December 2017	**Americas £'000**	**Europe £'000**	**Rest of World £'000**	**Group £'000**
Assets				
Intangibles	**152**	**—**	**—**	**152**
Other segment assets	**2,400**	**3,417**	**901**	**6,718**
	2,552	**3,417**	**901**	**6,870**
Unallocated corporate assets				**20,131**
Consolidated total assets				**27,001**
Liabilities				
Segment liabilities	**(10,909)**	**(5,692)**	**(2,269)**	**(18,870)**
Unallocated corporate liabilities				**(5,987)**
Consolidated total liabilities				**(24,857)**
Net assets				**2,144**

At 31 December 2016	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Assets				
Intangibles, including goodwill	11,254	6,470	—	17,724
Other segment assets	12,152	3,869	466	16,487
Total assets allocated to segments	23,406	10,339	466	34,211
Unallocated corporate assets				39,628
Consolidated total assets				73,839
Liabilities				
Segment liabilities	(20,260)	(6,688)	(1,478)	(28,426)
Unallocated corporate liabilities				(12,801)
Consolidated total liabilities				(41,227)
Net assets				32,612

5. Loss before tax

Loss before tax has been arrived at after (crediting)/charging the following:

	Note	**2017 £'000**	2016 £'000
Net foreign exchange losses/(gains)		**1,366**	(153)
Amortisation of intangible assets		**1,503**	1,333
Depreciation of property, plant and equipment		**815**	328
(Profit)/loss on disposal of fixed assets		**—**	(54)
Non-underlying items impairment		**16,665**	30,358
Non-underlying items other		**1,483**	2,304
Non-underlying items income		**(664)**	(1,894)
Staff costs	7	**25,681**	34,535

The £18.1m (2016: £32.7m) of non-underlying expense comprises £16.7m of goodwill impairment, £1.0m of restructuring-related redundancy costs and employee severance, £0.3m in connection to a provision charge for a former Proudfoot employee's ongoing contractual pension payments and £0.1m in relation to advisory fees incurred for restructuring. The £0.7m credit (2016: £1.9m) arises due to a release of the provision in relation to the closure of the Proudfoot Defined Benefit Medical Scheme in December 2016. £32.7m of non-underlying expense in 2016 comprises £30.3m of goodwill impairment, £1.7m of restructuring related redundancy costs and employee severance and £0.6m relating to a write off of capitalised software costs. Of the £1.9m credit, £1.6m relates to the closure of the Proudfoot Defined Benefit Medical Scheme, and £0.3m is in respect of a provision release.

6. Staff numbers and costs

The average number of persons employed by the Group (including executive directors) during the year, analysed by category, was as follows:

	2017 Number	2016 Number
Sales and marketing	**44**	**53**
Consultants	**122**	**161**
Support staff	**48**	**60**
Total	**214**	**274**

The number of Group employees at the year-end was 197 (2016: 281).

The aggregate payroll costs were as follows:

	2017 £'000	2016 £'000
Wages and salaries	**22,179**	**28,593**
Social security costs	**2,679**	**4,316**
Other including pension costs	**823**	**1,626**
	25,681	**34,535**

7. Investment revenues and finance costs

Investment revenue	**2017 £'000**	2016 £'000
Interest receivable on bank deposits and similar income	**224**	64

Finance costs	**2017 £'000**	2016 £'000
Interest payable on bank overdrafts and loans and similar charges	**(77)**	(468)
Finance costs on retirement benefit plans	**(642)**	(752)
	(719)	(1,220)

8. Tax

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax for the period of 19.25% (2016: 20%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the pre-tax loss from continuing operations per the income statement as follows:

Recognised in the income statement: Income tax expense on continuing operations	**Before Non-underlying items 2017 £'000**	**Non-underlying items 2017 £'000**	**Total 2017 £'000**	Before Non-underlying items 2016 £'000	Non-underlying items 2016 £'000	Total 2016 £'000
Current tax						
Current year	**991**	—	**991**	1,860	(3)	1,857
Adjustment in respect of prior years	**95**	—	**95**	(2,353)	—	(2,353)
Current tax (credit)/expense	**1,086**	—	**1,086**	(493)	(3)	(496)
Deferred tax						
Current year	**3,204**	6	**3,210**	(3,171)	190	(2,981)
Adjustment in respect of prior years	**189**	—	**189**	1,268	—	1,268
Deferred tax (credit)/expense	**3,393**	**6**	**3,399**	(1,903)	190	(1,713)
Total income tax						
Income tax (credit)/expense on continuing activities	**4,479**	**6**	**4,485**	(2,396)	187	(2,209)

The deferred tax charge of £3.2m relates to the re-assessment of the deferred tax recognition policy with regard to US temporary differences (£3.3m), offset by a credit (£0.1m) with regard to temporary differences recognised in other jurisdictions

9. Earnings per share

The calculation of the basic and diluted loss per share is based on the following data:

Earnings	2017 All £'000	2017 Continuing £'000	2017 Discontinued £'000	2016 All £'000	2016 Continuing £'000	2016 Discontinued £'000
(Loss)/ profit for the period	**(31,019)**	**(30,768)**	**(251)**	(55)	(38,560)	38,505
Add back: non-underlying items	**1,070**	**819**	**251**	39,856	30,768	9,088
Add back: amortisation of acquired intangibles	—	—	—	527	—	527
Add back: non-underlying items – Impairment	**16,665**	**16,665**	—	—	—	—
Adjustment for (profit)/loss on disposals	—	—	—	(42,779)	—	(42,779)
Reduction in tax charge due to add backs	**(192)**	**(192)**	—	(2,134)	(359)	(1,775)
Underlying (loss)/profit for the period	**(13,476)**	**(13,476)**	—	(4,585)	(8,151)	3,566

Number of shares	2017 Number (million)	2016 Number (million)
Weighted average number of ordinary shares for the purposes of basic earnings per share, and basic excluding non-underlying items and amortisation of acquired intangibles	**511**	505
Effect of dilutive potential ordinary shares:		
Restricted share plans	**0**	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**511**	505

Loss per share	2017 All	2017 Continuing	2017 Discontinued	2016 All	2016 Continuing	2016 Discontinued
Basic (loss)/profit per share for the year attributable to the owners of the company	**(6.1)**	**(6.1)**	**0.0**	0.0	(7.6)	7.6
Diluted (loss)/profit per share for the year attributable to the owners of the company	**(6.1)**	**(6.1)**	**0.0**	0.0	(7.6)	7.6
Basic (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(2.6)**	**(2.6)**	**0.0**	(0.9)	(1.7)	0.7
Diluted (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(2.6)**	**(2.6)**	**0.0**	(0.9)	(1.7)	0.7

The average share price for the year ended 31 December 2017 was 7.2p (2016: 16.5p).

10. Intangible assets and goodwill

The £16.7m impairment charge for goodwill relates to the impairment of Proudfoot goodwill. The Directors have reviewed the underlying value in use calculations and given the uncertainty over the outlook have determined that it is appropriate to fully impair the goodwill balance.

£1.3m of amortisation charge relates to the amortisation of Kurt Salmon software retained by the Group and is offset against the utilisation of the TSA provision. The remainder of the amortisation charge is recognised within administration expenses in the income statement.

Analysis of goodwill

Goodwill acquired in a business combination is allocated to the cash-generating units (“CGUs“) that are expected to benefit from that business combination. Following the disposal of Kurt Salmon, the remaining goodwill relates to Proudfoot.

The recoverable amount of goodwill is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations as at 31 December 2017 are that the CGU will trade broadly in accordance with projections prepared for the three years 2018 – 2020. The key assumptions underlying the forecasts are revenue and EBITA. EBITA is deemed to be a reasonable proxy for cash and assumed EBITA margins are consistent with past experience and industry norms.

The projections are based on budget 2018 and projections for 2019 and 2020. The 2018 budget has been prepared on a bottom-up basis, taking into account market and economic factors and have been approved by the Board.

For longer term financial projections, cash flows are extrapolated based on long-term average growth rates of 2%. The rates used to discount the forecast post-tax cash flows are 12.8% which represents the Group’s weighted average cost of capital, based on the risk-free rate with an additional premium added to reflect market risk and the size of the Group. Goodwill is tested against the value in use of the business as one CGU, given the integrated nature of the business. It cannot reasonably be allocated to a lower level of CGU.

This review, together with recognition of the inherent uncertainty within the forecast, resulted in a value-in-use of nil, and accordingly the goodwill has been fully written down to this value to reflect the recoverable amount being below the carrying value.

11. Notes to the cash flow statement

	2017 **£'000**	2016 £'000
Operating loss from continuing operations	**(25,788)**	(39,613)
Operating loss from discontinued operations	**(251)**	(3,876)
Operating loss	**(26,039)**	(43,489)
Adjustments for:		
Depreciation of property, plant and equipment	**273**	759
Amortisation of intangible assets	**223**	1,533
Profit on disposal of fixed assets	**-**	(3)
Adjustment for the cost of share awards	**(87)**	668
(Decrease)/increase in provisions	**(2,598)**	1,244
Goodwill impairment	**16,665**	30,358
Other non-cash items	**1,045**	2,108
Operating cash flows before movements in working capital	**(10,518)**	(6,822)
Increase in receivables	**3,160**	1,725
Decrease in payables	**(6,739)**	(5,607)
Cash used in operations	**(14,097)**	(10,704)
Income taxes paid	**(840)**	(3,665)
Interest paid	**(77)**	(845)
Net cash outflow from operating activities	**(15,014)**	(15,214)

12. Discontinued operations

Discontinued operations comprise residual transitional service agreements and obligations including contingent liabilities of the business that were sold in 2016. The Disposals during 2016 comprised:

- The Sale of the French and related operations of Kurt Salmon, including Belgium, Luxembourg, Switzerland and Morocco to Wavestone.
- The sale of the US healthcare consulting business of Kurt Salmon to ECG Management Consultants.
- The sale of the global retail and consumer goods consulting operations of Kurt Salmon to Accenture.

The results of the discontinued operations, which have been included in the consolidated income statement within the loss from discontinued operations line, were as follows:

	Kurt Salmon France and related operations 2017 £'000	Kurt Salmon Healthcare 2017 £'000	Kurt Salmon Retail and Consumer goods 2017 £'000	Total 2017 £'000
Revenue	—	—	—	—
Cost of sales	—	—	—	—
Gross profit	—	—	—	—
Administrative expenses – underlying	—	—	—	—
(Loss)/profit from operations – underlying	—	—	—	—
Administrative expenses – non-underlying	(1,396)	—	(1,143)	(2,539)
Administrative expenses – non-underlying credit	—	—	2,288	2,288
Total administrative expenses	(1,396)	—	1,145	(251)
(Loss)/profit from operations	(1,396)	—	1,145	(251)
Net finance costs	—	—	—	—
(Loss)/profit before tax	(1,396)	—	1,145	(251)
Attributable tax expense	—	—	-	—
(Loss)/profit after tax	(1,396)	—	1,145	(251)
Net (loss)/profit attributable to discontinued operations	(1,396)	—	1,145	(251)

The French and related operations of Kurt Salmon non-underlying expenses relate to a provision for future employee related litigation claims arising post sale of this business to Wavestone.

The Kurt Salmon Consumer Group net non-underlying credit relates to a release of surplus TSA onerous space and contract provisions following the sublet of the legacy San Francisco office (£2.3m) and charges relating to provision for tax claims arising from the sale of the business to Accenture of net £0.3m and £0.8m of provision relating to the continued administration of the legacy Kurt Salmon UK defined benefit pension scheme.

12. Discontinued operations (continued)

	Kurt Salmon France and related operations 2016 £'000	Kurt Salmon Healthcare 2016 £'000	Kurt Salmon Retail and Consumer goods 2016 £'000	Total 2016 £'000
Revenue	—	8,729	72,543	81,272
Cost of sales	—	(7,282)	(47,049)	(54,331)
Gross profit	—	1,447	25,494	26,941
Administrative expenses – underlying	(63)	(2,951)	(18,188)	(21,202)
(Loss)/profit from operations – underlying	(63)	(1,504)	7,306	5,739
Administrative expenses – non-underlying	(6)	(419)	(11,649)	(12,074)
Administrative expenses – non-underlying credit	81	—	2,905	2,986
Amortisation of acquired intangibles	—	—	(527)	(527)
Total administrative expenses	12	(3,370)	(27,459)	(30,817)
Profit/(loss) from operations	12	(1,923)	(1,965)	(3,876)
Net finance cost	—	—	(188)	(188)
Profit/(loss) before tax	12	(1,923)	(2,153)	(4,064)
Attributable tax expense	—	—	(210)	(210)
Profit/(loss) after tax	12	(1,923)	(2,363)	(4,274)
Profit/(loss) on disposal from discontinued operations	244	(10,661)	53,196	42,779
Net profit/(loss)t attributable to discontinued operations	256	(12,584)	50,833	38,505

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MANAGEMENT CONSULTING GROUP PLC ON THE PRELIMINARY ANNOUNCEMENT OF MANAGEMENT CONSULTING GROUP PLC

As the independent auditor of Management Consulting Group Plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Management Consulting Group Plc's preliminary announcement statement of annual results for the period ended 31 December 2017.

The preliminary statement of annual results for the period ended 31 December 2017 includes summary financial statements, related disclosures required by the Listing Rules, Chairman's Statement, and financial and operational overview. We are not required to agree to the publication of the trading statement and overview from management.

The directors of Management Consulting Group Plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Management Consulting Group Plc is complete and we signed our auditor's report on 30 April 2018. Our auditor's report contains an emphasis of matter referring to material uncertainties relating to going concern. This is due to the fact that that the board approved forecasts for the business contain a number of assumptions upon which there is significant uncertainty. The principal uncertainties are:

- The timing and quantum of the release of cash from escrow in connection with the disposal of Kurt Salmon is uncertain.
- The source and quantum of the current immediate fund-raising plans are the subject of a letter of intent, but that intention is neither binding nor guaranteed. The ability to achieve the forecast revenues and reduce the cost base of the business appropriately is inherently uncertain and therefore the quantum of the Group's financing requirements is uncertain and its sufficiency is dependent on achieving at least the sensitised forecast outturn.

As of the date of our report, those uncertainties mean there is a significant doubt about the entity's ability to continue as a going concern.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Carrying value of goodwill

The goodwill in relation to Proudfoot represented a significant asset on the balance sheet of £16.0 million at the previous year end. The Group recorded an impairment against the goodwill in the current year to reduce the carrying value to nil in line with the directors' assessment of the recoverable amount. This is the result of judgements and uncertainties in relation to forecasting future cash flows, associated discount rates and growth rates.

We tested management's assumptions used in the impairment model for goodwill, described in note 9 to the financial statements.

We considered and evaluated the key assumptions which we judged to be the quantum and certainty of future cash flows, growth rates and the discount rates applied, through consideration of the assessment of CGUs in accordance with IAS 36, our understanding of the future prospects of the business (with particular focus on assessment of forecasts against historical forecast accuracy), benchmarking against comparator businesses, and comparison against the market rate and the prevailing Group cost of capital.

We have tested the mechanics of the impairment model prepared by management by validating the relevant calculations.

We concur with the impairment charge recognised in relation to goodwill and the carrying value of £nil.

Revenue recognition

We consider that the risk specifically relates to the valuation and cut-off of revenue. Due to the high level of judgement involved, we consider this to be the presumed fraud risk relating to revenue as required by International Standards on Auditing. The majority of consultancy revenue is recognised based on time worked by staff with regard to the expected recovery rate applicable to the projects being delivered. When considered with amounts invoiced to clients, revenue is deferred or accrued based upon the estimate of the fair value of work delivered where the consultancy has the right to consideration at the balance sheet date. There is judgement involved in the estimate of this fair value, in relation to proportion of work delivered and recoverable rate thereof. There is also judgement involved in assessing the recoverability of aged or overdue debts. The Group had £1.8 million trade receivables at 31 December 2017 (31 December 2016: £3.1 million).

We also consider the recognition of non-traditional fees ("NTF") to be a risk. The timing of recognition of the fees is determined based on contractual conditions and management's judgement as to whether the conditions have been met at year end.

We assessed the revenue recognition policies applied in the Group, including the valuation and timing of revenue recognition.

We performed substantive tests on a sample of projects, agreeing fees and project dates to contracts. Independent recalculation was performed on a sample of the accrued and deferred income balances by reference to the revenue recognised and pre year end billing, accrued balances were assessed against post year end billings. Time reports were assessed and used to recalculate revenue recognised for the year under review. We assessed the recognition criteria for NTFs with reference to relevant contracts. We considered whether the revenue recognition policies adopted complied with IFRS.

We tested in detail the provision for bad debts through consideration of overdue debts and aged accrued income and assessing the level of provision against any risk, to determine whether projects had been adequately reviewed for debtor recoverability.

We concur with the treatment adopted in relation to revenue recognition and provisioning for bad debts.

Recoverability of deferred tax assets

The Group had £7.6 million of deferred tax assets at the previous year end. There is judgement in relation to the recognition of deferred tax assets, in particular those in overseas jurisdictions due to the judgement in assessing the probability that sufficient future taxable profits will be generated against which the deferred tax asset can be offset. In 2017, the deferred tax asset has been written down to £0.1 million, due to tax rate changes in the US and the write off of the remaining balance due to uncertainty over the existence of sufficient taxable profits in future against which to recover the deferred tax assets.

We tested and evaluated the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets as described in note 15 to the financial statements, considering those assumptions and supporting forecasts and estimates with reference to recent performance, as well as the appropriateness of tax disclosures.

We used our internal tax specialists to assess tax rates against local tax legislation and review supporting documentation as well as assessing management's assumptions and estimates in accordance with accepted tax accounting practice.

We concur with the treatment adopted in relation to deferred tax assets.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Management Consulting Group PLC we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) Read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Deloitte LLP

Statutory Auditor

London, UK

30 April 2018